Performance Based Logistics and Depot Partnering Lessons Learned

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Today's Support Challenges

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- **Aging Weapon Systems**
  - Procurement Holiday in 1990's
  - Average A/C Age 19 years (H-46, 34 yrs)
  - Obsolescence Up
  - Drive Increased Costs

Increased Customer Expectations

- **Declining Parts Inventories and Infrastructure**
  - Shrinking Vendor Base

- **Rising Cost of Ownership**
  - Increased Consumption and “Unplanned" Consumption
  - Repairables And Operating Hours Costs Up

Bottom Line: Need a Better Strategy

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Turning to Industry

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- Start Incentivizing Reliability and Stop Incentivizing and Paying for Frequent Repair
- Industry Brings Flexibility and Innovation to Managing the Supply Chain
- Total ILS Solution
- NAVAIR and NAVICP Embrace Performance Based Logistics (PBL)

Bottom Line: A Holistic Approach Required

Typical PBL Characteristics

- **Win/Win for USN/Contractor- Other Customers May Benefit**
- **Incentives To Increase Performance and Reduce Costs**
- **Contractor Performs an Increased Role in Traditional Government Functions, e.g. Supply Support, Repair, Repair Management (Best Commercial Practices), Repair Parts, Wholesale Sparing, PHS&T, etc.**
- **Contractor Guarantees Availability and Reliability Commitments**
- **Fixed Price Contract (Legacy), Cost Type (New Weapons) With Incentives to Improve Reliability and Lower BCMs**
- **Contractor Given More Flexibility and Control in**

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Successful PBL

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- Compliance With Title 10 USC
- Solid Business Case Analysis- PBL Programs Are Under More Scrutiny From DODIG Than Traditional Programs
- Provider Empowered to Fulfill Requirements (Responsibility/Authority Delegated)
- Profit Motive Coincides With Navy Performance Objectives
- Improved Readiness at Reduced TOC

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Business Case Analysis

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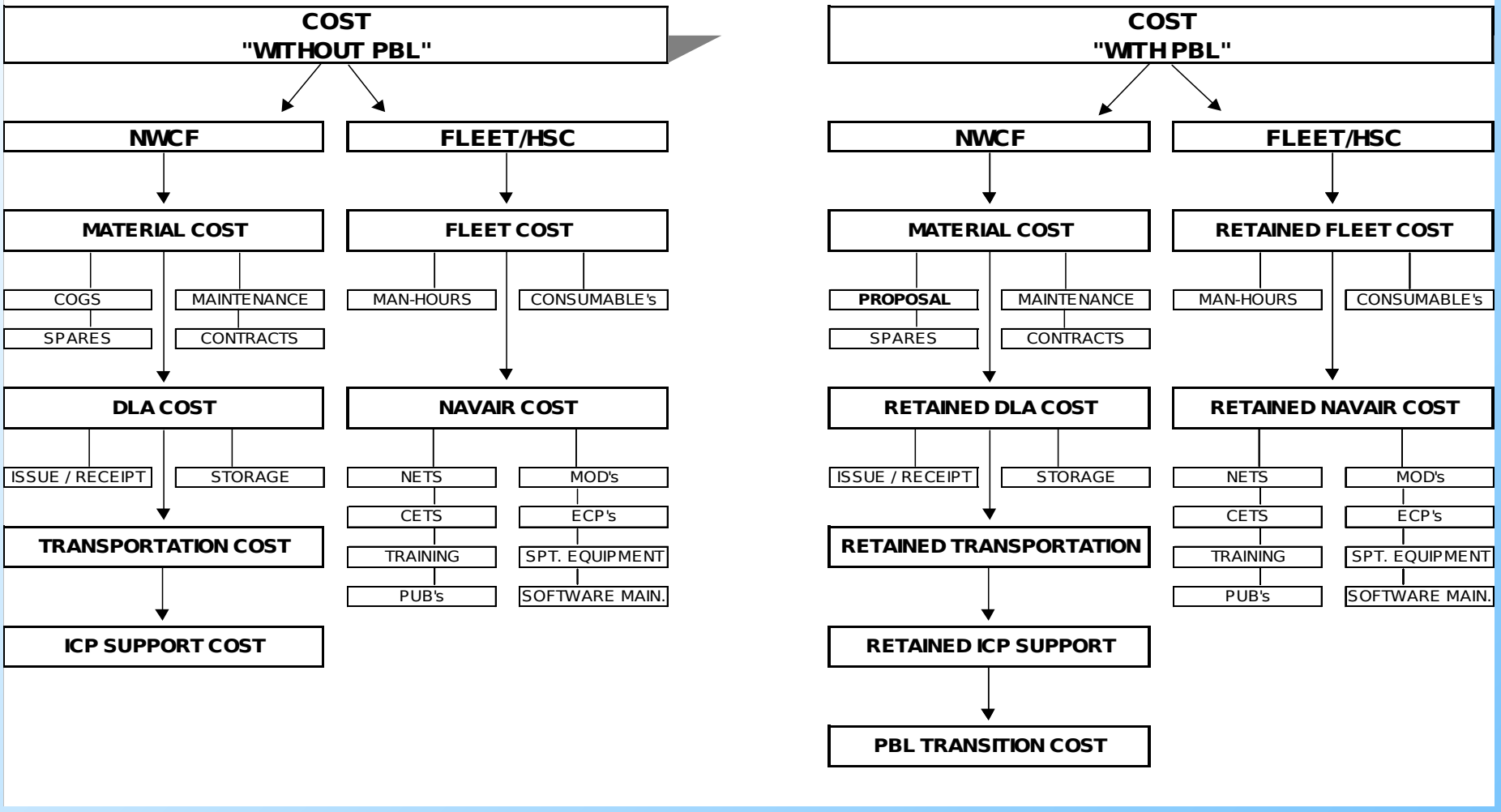
COST ELEMENTS



Why Partner/Team?

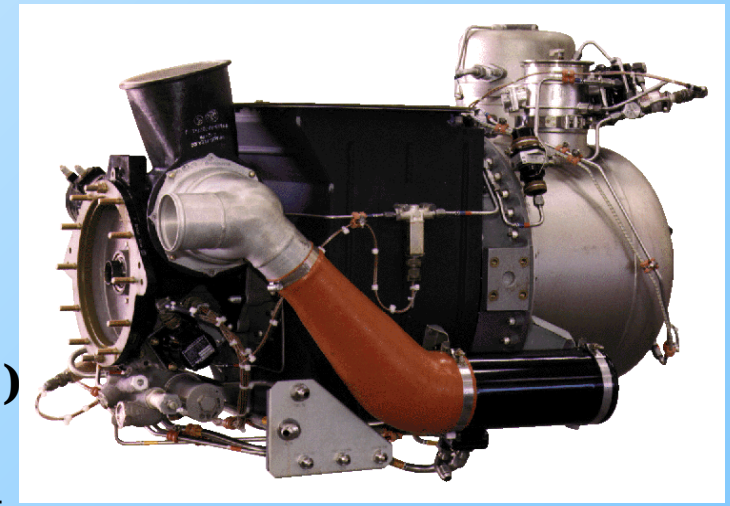
- Satisfies Title 10 Requirements (Encouraged in Sec 2474)
- Depot Labor – Strike Proof, Skill
- "Break even" partner–not profit
- Stable Depot Workload
- OSD Policy
- Share Best Business Practices
- Technology Insertion
- Reliability Improvements
- Material Support
- Reduce Cost, TAT and Inventory Requirements

APU TLS Overview

- Provides Support for APUs used on the C-2, F/A-18, S-3, C-130 and P-3

- Navy's First Public / Private Partnership
  - NADEP Cherry Point… Touch Labor
  - Honeywell… Program Management

- 10 Year Performance Based Contract, Firm Fixed Price (5 Year Base & 5 One-year Incentive Terms)
- Reliability Increase Guarantees
  - 45% for F/A-18
  - 25% for S-3
  - 15% for C-2
  - 390% for P-3
- Delivery Guarantees… 2 Days (IPG 1)
- Priced by the Flight Hour
- All Inclusive, "No Excuses" Contract
- Obsolescence Management
- Product Support Engineering
- Surge Capability… 120% of Annual Flight Hours



TLS Performance

- 2442 Requisitions Filled Mar01-May03, On-Time Rate of 86%
- Average Time From Receipt of Requisition to Delivery to the
  Fleet Was Less than 6 Days (35 Days Prior to TLS)
- For IPG-1 Requisitions, the Average Time From Receipt to
  Delivery to the Fleet Was 3.8 Days
- Supply Material Availability Average of 4 Programs at Depot
  Increased From 65% to 95%

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Lessons Learned

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- Difficulty With Third Party Payments
- Advanced Funding
- Incompatible IT Systems/Asset Visibility
- Risk, Work Share
- Lack of Standardized NAVAIR Partnering Policy and Processes between depots
- On Site and Off Site Material Management, Storage, Use of Government Facilities, Movement, Replenishment, & Controls
- Drawing & Tech Data Configuration Records Requirements
- Upfront Negotiation With DLA

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Lessons Learned

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- Bring In ALL Stakeholders Early in the Process, Including
  Often Overlooked FMS
- Establish a PBL IPT with Empowered Members
- Continued Communication required throughout process including Post Award
- Develop a Few, Simple Metrics With Dependable Measurement Tools
- Establish Trust and Eliminate Adversarial Relationship
  Between Government and Contractors
- Strive to Ensure PBL is Transparent to the Fleet
- Get Senior Level Sponsorship

Leadership/Sponsorship

Honeywell

Rob Ruck

Bud Farrington

NADEP

Col. Bob Leavitt

Col. Gilda Jackson

NAVAIR

Buzz Milan

Bob Kennedy

NAVAIR

Dick Fitzgerald

Captain Kurt Huff

Lessons Learned

Make the Deal Attractive to Industry

- **Long Term Agreements With Incentives**
  - Tie Profit to Performance
- **Cost/Benefit Tradeoffs**
  - Keep Options Open Throughout Negotiations
- **Let Industry Participate in Designing the Solution**
  - Be Flexible and Listen to Industry Input
- **Be Sensitive to Title 10 Core**
  - Partnering With Organic Depots Helps

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Lessons Learned

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Shorten the Length of Contracting Process

- **Heavy Resource Investment Required for PBLs**
  - Time & People
  - Historically 18 – 24 Months to Complete
  - Bring Right People to Team Early
  - Dedicate People to Negotiation and Implementation
- **Significantly More Complex Than Traditional Contracts**
  - Supplier Relationships Also More Sophisticated
- **Each PBL Is a Unique Arrangement**
  - Not Produced Traditional Cookie-Cutter Style
  - Not Supported by IT Legacy Business Applications
- **New IT Tools Being Developed to Shorten Cycle Time**

Lessons Learned

- Upfront Involvement in the PBL Process By Depot Managers, Engineers and Logisticians
- Advance Material Support Through Initial PBL Transition Period
  - Recommend Improved Coordination of Material Buyout by the PBL Provider in the Future Partnership
  - Recommend That Material Provider Buy-Out Material Previously Positioned in the Depot
- Advance Material Support For “G” Condition Inventory
  - Material Required Should Be Identified and Acquired Before Teaming Agreement Is Reached
- Consistent/Dedicated Personnel

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Summary

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“You miss 100% of the shots you don’t take.”

Wayne Gretzky

Nothing in the world can take the place of persistence…

Persistence and determination alone are omnipotent.”

Calvin Coolidge

“Insanity: doing the same thing over and over again and expecting different results.”

Albert Einstein